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THE RELATION OF THE UNITED STATES TREASURY TO GENERAL FINANCE.

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The United States Treasury, in its relation to the banking and financial interests of the country, has occupied, since the creation of the national banking system, to go back no farther, an illogical, not to say an unjustifiable, position. By the National Banking Act, with its several amendments, the government became sponsor for banking institutions now numbering more than 6,500. The rights, duties, qualifications, and responsibilities attached by law to all these institutions were fixed by the government itself. Having brought these agencies into being, it virtually declared to the citizens of the land, "These are worthy agencies, and they deserve your confidence. For the faithful performance of the duties imposed upon them and in the interest of your safety, we, the government, will maintain over them a watchful and detailed supervision, disciplining those unfaithful to duty, while we will peremptorily suspend the power of any who shall prove unfit." Clothed with these high warrants and sanctions, the national banks as a whole have made successful appeal to the business world, and these institutions now, taken together, are under money obligations to the people for a sum in excess of four thousand millions of dollars.

What has been the practical attitude of the government, as expressed through its treasury and fiscal department, to the banking agencies it has thus endowed with life? It can be set forth in a single paragraph. Never has it

itself entrusted its financial interests to the safekeeping of the agencies it has held out to the people as worthy of their respect and confidence. It has, indeed, on several and divers occasions, taken moneys from the treasury hoard and, under peculiar exacting conditions, has, for various periods of time, deposited a portion of these hoards with banking institutions, but it has in no way conformed to the general method by which the banking agency is utilized by the business public. It has, in fact, persistently refused to receive from that portion of the public from which it derives its enormous revenues those instruments of credit known as checks and drafts, which constitute the real currency of commerce and trade. Separate, distinct, and aloof from the ordinary financial and industrial life by which, through its revenues and disbursements, it stands closely related, it is persistent in *exacting cash in hand from its revenue contributors*, while, on the other hand, it has distributed its payments in actual funds through its own special appointees.

In all these particulars it has been as if the banking agency did not exist, or if existing, as if it were unworthy of government use. The excess of its revenues, when excess there has been, was withdrawn from that public service to which through the banks it might have been applied.

This, I say, was illogical. It might indeed have lain in the mouth of the great corporations, such as railroads, the Standard Oil Company, and other enormous handlers of money values, to have said to the government: "Your ingenious so-called banking system does not commend itself to our respect and confidence. We believe neither in the people with whom we deal nor the banks you have created. Our revenues, however derived, must come to us in actual money. The device of checks and drafts, so

convenient and economical to the people in their other affairs, does not appeal to us. Having the power in our relation to do so, we dictate the conditions. Our money, when received, we will lock up, and in the natural financial intimacies of life we will stand separate, apart and independent. We justify this action on the ground that your banking system is unsafe."

Now, if it were excusable on this ground for the great corporations referred to to have taken this arbitrary position, which nobody will affirm, it were inexcusable for the government to do so, since it itself determined and decreed all the qualifications for safety and efficiency which its own creatures should possess.

Was this course of action on the part of the government necessary for just prudence as to the safety of its funds or proper economy in administration of its affairs? In answer to the first half of this question I affirm it to be the fact demonstrated by careful and thorough examination, that had the government employed the national banks in what is known as the reserve cities, depositing with them its revenues, with some just proportion to or regard for the relative capital of those various institutions, with no security from them whatever other than a first lien upon their assets respectively, there would never have been a dollar of loss to the government. If, on the other hand, the government had required, in consideration for these moneys so deposited, an interest return by the banks of say 2 per cent. per annum, the government would have realized from this source a total revenue up to the present time of something more than \$70,000,000.

As to economy of administration of the treasury funds, there would also have been an enormous saving, since the elaborate machinery of the sub-treasury and sub-treasuries need not have been employed. Nevertheless, the

creator has steadily refused to employ its own agencies, while the rest of the business world, obedient to the law of economic advantage, has employed in its multifarious affairs the useful machine of banking-credit which the government has thus rejected. To add piquancy to this contrast, it might be truthfully said that were the large financial corporations above referred to, to abandon their present methods and adopt instead the example of the government and install each for itself an "independent treasury", a cry of indignant protest would resound through the length and breadth of the land, and rightly so, unless it be that our modern system of credit and credit machinery for the transfer of property and payment of account, etc., is a snare and delusion.

If this be true, the government is no doubt justified in maintaining its own private purse independent of all things else. It is in that case equally true that everyone controlling money values should adopt the same rules. In short, the National Banking Act should be repealed. We are not, however, ready to return to a method closely allied to primitive barter. Concede this, and then the government is wrong—economically and logically wrong in its independent treasury. The disturbing influence on general financial affairs of excessive money hoarding by the government has been too often described to require any detailed notice here. If, then, a vote were to be taken among those who have capacity to judge of things in their true relationships, I do not doubt that the proposition to abolish the independent treasury and substitute for it the use of banking agencies as they *now* exist would receive a preponderating vote. I may be wrong in this opinion. I myself would hesitate, however, to vote in the affirmative on that proposition. I should much prefer that the motion be "laid upon the table" until our banking

system can be so amended that it shall be free, or comparatively free, from the perturbations which periodically beset us, bringing in as a consequence a partial or complete suspension of the banking function upon which society depends for the regular on-going of its business affairs.

I need hardly say that the amendments to which I refer must be in the line of unification or centralization of power. The weakness of the banking units as they now exist, so often demonstrated, must receive strength by association together or with some superior commanding agency able both to exercise control and furnish effective support. A central bank or a government bank of adequate capital properly organized for safety and efficiency is the sort of an agency to which I refer. Great Britain, France, and Germany offer good models which we may profitably study.

I say I would maintain the independent treasury until such a time as our banking system is so reënforced because, in spite of the lack of logical reasons for its existence, it has been, and is now, the only agency which can—or theoretically can—regulate and give to some extent a degree of steadiness to the erratic movement incidental to our financial and banking system as now operated.

By the intervention of the Treasury on many occasions in the past, it has averted threatened financial disaster. Given an always plethoric treasury, directed by an infallibly wise administrator (one who has never yet appeared), it could, by timely deposits of these hoarded moneys and by timely withdrawals of the same in part or in whole, give steadiness and regularity where otherwise there would be irregularity, dislocation, and panic. In these regards the independent treasury, when endowed with the needful power in money, can, and in my opinion

has, to a degree, served the purpose and discharged in a crude way the functions of a great government or central bank. This service, crude as it has been, often entirely lacking through want of power, often badly directed through lack of wisdom, is a development not anticipated nor foreseen in the laws establishing the independent treasury. It illustrates an old truth often recognized, that even out of evil good may incidentally come. Be the service to which I have referred worth little or much, it cannot safely be counted upon as a valuable factor in the future. The present overflowing treasury, through changed conditions, may, at no distant date, be in a state of exhaustion. A perfect system of government finance would indeed bring in each day from its sources of revenue a sum exactly adequate to meet its daily expenditures. We ought not, then, to permanently retain the independent treasury for the sake of its ambiguous and uncertain control as an intermediary in our financial life, with which it should by right interfere to the smallest degree possible.

My conclusion, then is, first, that it should be abolished whenever and as soon as our demonstrated faulty banking system is corrected in the direction I have pointed out rather than described; second, that the perfecting of our banking and currency system, so that it may at all times perform its important function in a safe and effective manner, both for the government and for all the people, is an end demanding the best thought and intelligent effort of financial students and political economists, and all patriotic people who desire for their country what will best make for its economic welfare.